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JEWEL TEA CO., INC.

REPORT

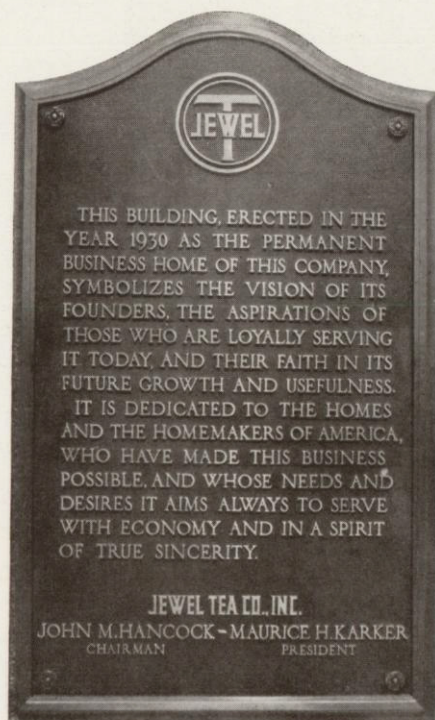
1935



JEWEL TEA

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CO., INC. JEWEL PARK BARRINGTON, ILL.

DIRECTORS:

JOHN M. HANCOCK, *Chairman*

HENRY S. BOWERS

A. VERNON JANNOTTA

M. H. KARKER

F. M. KASCH

C. W. KAYLOR

ARTHUR LEHMAN

WALTER E. SACHS

ROBERT R. UPDEGRAFF

OFFICERS:

JOHN M. HANCOCK

Chairman of the Board of Directors

M. H. KARKER

President

WM. D. SMITH, *Vice Pres.—Public Relations*

ROBERT HILTON, *Vice Pres.—Administration*

F. M. KASCH, *Vice Pres.—Food Stores*

C. W. KAYLOR, *Vice Pres.—Sales*

ROBERT W. MUIR, *Secretary*

J. M. FRIEDLANDER, *Treasurer*

A. U. HUNT, *Controller*

F. J. LUNDING, *Asst. Secretary*

TRANSFER AGENT:

MANUFACTURERS TRUST COMPANY, 55 Broad Street, New York City

REGISTRAR:

THE COMMERCIAL NATIONAL BANK & TRUST COMPANY OF NEW YORK
56 Wall Street, New York City

AUDITORS:

TOUCHE, NIVEN & Co., *Public Accountants, New York and Chicago*

JEWEL TEA CO., INC.

JEWEL PARK
BARRINGTON, ILLINOIS

January 31, 1936

TO THE STOCKHOLDERS:

The twentieth annual report of your company, including the balance sheet and statements of the income and surplus accounts for the fiscal year ended December 28, 1935, is presented herewith.

PROFITS Net profit for the year — after provision for taxes, depreciation and reserves — was \$1,536,186.34 or \$5.49 per share on the 280,000 shares issued, compared with \$1,243,123.01 or \$4.44 per share in 1934. Treasury stock at the end of the year, not under contract for sale to employees, totaled 8,778 shares, leaving 271,222 shares outstanding in the hands of the public and on this number of shares earnings for 1935 were at the rate of \$5.66 per share. Improved earnings in the last 24 weeks of the year were due to lower costs for green coffee and to continued progress in operating economy and efficiency.

SALES Total sales amounted to \$18,804,497.82 compared with \$17,217,176.94 in 1934, an increase of 9.22%. The number of operating routes was increased by 51 and the cost of such developments was charged to current operations.

WORKING CAPITAL Net working capital amounted to \$4,742,515.17 and the ratio of current assets to current liabilities was 4.25 to 1. Marketable securities include the following groups of bonds at market values on December 28, 1935: Federal government obligations \$1,300,361.68, state and municipal bonds \$582,797.05, industrials, public utilities and others \$754,584.61.

OPERATING EXPENSE Although dollars of expense for 1935 were higher than in 1934, due almost entirely to higher pay rolls, their ratio to sales was somewhat reduced. Operations in 1935 were charged with \$215,548.48 representing the cost of wage extras declared during the year by the board of directors and payable to all employees excepting officers and executives.

RESERVES Assets have been conservatively valued and reserves have been provided by the application of the same principles in use for many years. The reserve for alterations, improvement and development was charged with \$17,422.20 as a result of expenditures for alterations, remodeling, and redecorating stores; and for lease adjustments and modernization of equipment in the stores. The temporary protective inventory reserve of \$100,000 set aside on July 13, 1935 has been returned to earnings for the year.

TAXES Taxes paid by your company in 1935 amounted to \$676,717.16 (all processing and indirect taxes not included), an increase of 14.88% over the taxes paid in 1934 and almost

three times the amount paid for taxation in 1932, and this in the face of the fact that the Federal government is raising only about half of its expenditures by taxation, adding the other half to the constantly increasing Federal debt and the tax burden of future years. The hand of the tax collector is laid with increasing weight upon all industry — private, partnership, and corporate — of every kind, nature, and location. Your company has not been singled out to bear an undue proportion of the tax burden nor will it suffer in greater degree than all other taxpayers.

But the end is not yet because with no further legislation and with no increases in sales volume or profit, it is estimated that for the year 1942 taxes will cost your company fully half more than they do now. The prospect is that even this staggering burden will be further progressively increased through higher rates and new laws in each of the seven intervening years.

The sum paid for taxes in 1935 is equal to 3.60% of sales or 6.93% of total assets. It amounts to over \$200 for every employee of this business (over \$3.90 per week per person) or the equivalent of \$2.42 per share on the stock of the corporation. Your company is but an average example of what is happening to all industry and of what will continue to happen until the people direct that government restrict its expenditures and live within its income.

Loud condemnation alone will not accomplish much. We must search out cause and effect in the hope that a real remedy can be found and applied. The costs of food, clothing, rent, and all things that people buy and enjoy will be increased as taxes increase, but the income of the people is not likely to increase to the same extent or in the same proportion. Unless people can first of all curb their own growing appetite for expenditures by government they will in turn be forced to sacrifice the luxuries and in many cases even the necessities of life in order to pay the resulting taxes. It is the present day spending and the future day taxation which constitute the problem.

SURPLUS Regular dividends at the annual rate of \$3 per share and a special dividend of \$1 per share were paid in 1935. The surplus account was closed with a balance of \$2,334,985.82.

The management is grateful to all members of the organization for their wholehearted co-operation and effective work in bringing about another year of progress.

M. H. KARKER, *President*

For the Board of Directors:

JOHN M. HANCOCK, *Chairman*

JEWEL TEA

(New York and West V

CONSOLIDATED BALANCE SH

ASSETS

Current Assets:

Cash on hand, demand and time deposits.....		\$1,479,917.01
Marketable securities at cost or market, whichever is lower, and interest (market value \$2,637,743.34).....		2,608,451.56
Accounts receivable—		
Trade customers, less reserve of \$84,406.55 for doubtful accounts...	\$ 178,305.99	
Miscellaneous, less reserve of \$3,896.99 for doubtful accounts.....	32,549.77	210,855.76
Inventories at cost or market, whichever is lower —		
Raw materials	\$ 777,535.55	
Finished groceries.....	896,477.32	
Premiums.....	226,666.55	1,900,679.42
		<u>\$6,199,903.75</u>

Other Assets:

Common stock in treasury and held for employees, at cost or market, whichever is lower, less payments of \$8,702.48 thereon (9,238 shares, of which 460 shares are under contract for sale to employees)	\$ 235,228.90
Loans to employees.....	9,298.01
Cash surrender value of life insurance policies.....	46,659.50
Miscellaneous investments and deposits.....	35,314.14
	<u>\$ 326,500.55</u>

Jewel Employees Trust Fund Assets:

Investments at cost or market, whichever is lower, and cash (Jewel employees surety and savings deposits, per contra).....	<u>\$ 339,113.86</u>
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Deferred Charges:

Premiums (at cost) advanced to customers, less reserve of \$509,713.85 for doubtful accounts.....	\$ 859,182.01
Unexpired insurance, expense supplies, etc.	92,219.91
	<u>\$ 951,401.92</u>

Capital Assets:

(Appraised as of December 31, 1932, when book values were reduced \$404,537.66 to basis of current values, plus subsequent additions at cost)		
Land.....		\$ 355,967.88
Buildings.....	\$ 921,647.71	
Machinery, furniture and fixtures, at plants.....	425,568.12	
Branch and store equipment.....	1,459,245.15	
	<u>\$2,806,460.98</u>	
Less reserve for depreciation.....	1,217,515.76	1,588,945.22
		<u>\$1,944,913.10</u>
Good Will	\$ 1.00	
		<u><u>\$9,761,834.18</u></u>

CO., INC.

(Virginia Corporations)

HEET - DECEMBER 28, 1935

LIABILITIES

Current Liabilities:

Letters of credit and acceptances.....	\$ 119,434.37
Accounts payable, trade.....	166,104.88
Dividends payable, January 15, 1936.....	203,071.50
Wage extra, payable March 15, 1936.....	151,473.61
Accrued wages and bonuses.....	402,223.44
Federal, state and other taxes accrued.....	371,307.78
Trading stamps outstanding, etc.....	43,773.00
	<u>\$1,457,388.58</u>

Jewel Employees Surety and Savings Deposits:

Principal and interest guaranteed by Jewel Tea Co., Inc. (Jewel employees trust fund assets, per contra).....	\$ 339,113.86
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Reserves:

For contingencies.....	\$ 285,000.00
For automobile accident and fire losses.....	177,559.82
For alterations, improvement and development.....	232,323.76
	<u>\$ 694,883.58</u>

Capital Stock and Surplus:

Common stock, no par value —	
Authorized.....	300,000 shares
Unissued.....	20,000 shares
Issued and outstanding.....	280,000 shares
Earned surplus, per annexed statement.....	2,334,985.82
Whereof \$235,228.90 represents the cost of 9,238 shares of common stock (after deducting payments of \$8,702.48 received on 460 shares under contract for sale to employees) reacquired for sale to employees and carried as an asset, the market value of which is \$545,577.52.	<u>\$7,270,448.16</u>

Contingent Liabilities:

Under contracts for coffee and other commodities not shipped at December 28, 1935.....	<u>\$417,399.96</u>
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\$9,761,834.18

JEWEL TEA CO., INC.

(New York and West Virginia Corporations)

CONSOLIDATED INCOME AND SURPLUS ACCOUNT

For the Year Ended December 28, 1935

Net Sales	\$18,804,497.82
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Deduct:

Cost of Sales — including raw materials, labor, supplies, operating expenses, etc.	\$15,763,489.70	
Depreciation — of buildings, machinery, furniture and fixtures, and automobiles	367,413.57	
Taxes — Federal and state income, franchise, capital stock, excise, unemployment, sales, occupational, gasoline, mileage, personal property and real estate taxes, and automobile and business licenses	676,717.16	
Provision for doubtful accounts	173,949.91	
Rents	358,661.94	
Maintenance and repairs	118,185.09	17,458,417.37
		<u>\$ 1,346,080.45</u>

Add:

Other income:		
Interest on securities	\$ 58,154.27	
Profits on securities (net)	330.06	
Other miscellaneous income	131,621.56	190,105.89
		<u></u>

Net Profit for the Year	\$ 1,536,186.34
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Earned Surplus, December 29, 1934	1,860,613.18
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	<u>\$ 3,396,799.52</u>
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Deduct:

Dividends on common stock (\$4.00 per share)	\$ 1,082,330.50	
Less adjustments arising from sale of common stock to employees ..	20,516.80	1,061,813.70
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Earned Surplus, December 28, 1935	<u>\$ 2,334,985.82</u>
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AUDITOR'S REPORT . . .

TO THE BOARD OF DIRECTORS,
JEWEL TEA CO., INC.:

We have made an examination of the consolidated balance sheet of Jewel Tea Co., Inc. (a New York Corporation) and its subsidiary Company, Jewel Tea Co., Inc. (a West Virginia Corporation) as at December 28, 1935, and of the consolidated income and surplus account for the year then ended. In connection therewith, we examined or tested the accounting records of the Companies and other supporting evidence, and obtained information and explanations from officers and employees; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related consolidated income and surplus account fairly present, in accordance with accepted principles of accounting consistently maintained by the Companies during the year under review, their consolidated position at December 28, 1935, and the consolidated results of their operations for the year then ended.

Chicago, Illinois
January 25, 1936

TOUCHE, NIVEN & CO.
Public Accountants

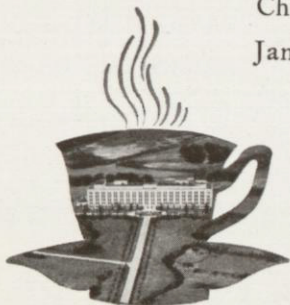




TABLE OF COMPARAT SALES AND EARNIN

YEAR	SALES	EARNINGS	
		AMOUNT	PER SHARE ON COMMON STOCK*
1921	\$11,210,388	\$ 321,457	\$1.15
1922	10,240,810	152,149	.54
1923	12,554,875	624,200	2.23
1924	13,602,745	855,076	3.05
1925	14,178,478	838,947	3.00
1926	14,568,258	1,258,052	4.49
1927	14,532,336	1,261,391	4.50
1928	15,970,893	1,530,888	5.47
1929	16,844,110	1,691,302	6.04
1930	15,521,791	1,705,293	6.09
1931	13,742,691	1,363,780	4.87
1932	14,662,252	1,053,626	3.76
1933	14,377,593	909,325	3.25
1934	17,217,177	1,243,123	4.44
1935	18,804,498	1,536,186	5.49

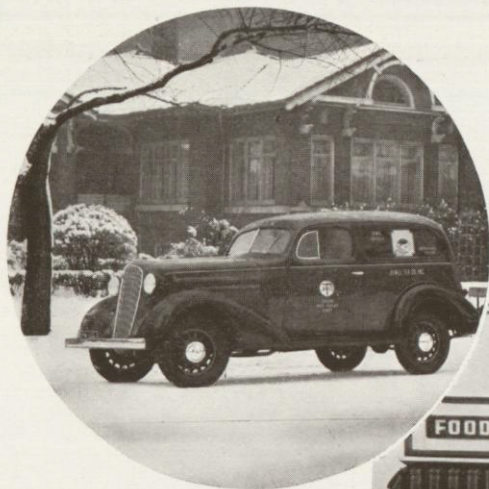
*Based on 280,000 shares.

Smiling, courteous, prompt Jewel Men prove the truth of Elbert Hubbard's statement: "The premium method of merchandising will live as long as trade because it moves with the tides of the human heart."

Jewel is more than a big business, it is a nation wide service, giving its patrons four worth while things for the price of one: Quality Groceries, Quality Premiums, Quality Personal Service and an Unlimited Guarantee.

WHERE JEW A MILLION

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The coffee brown Jewel Car in front of a home is the sign of a smart shopper. Jewel brings the markets of the world direct to the doors of a million homes.

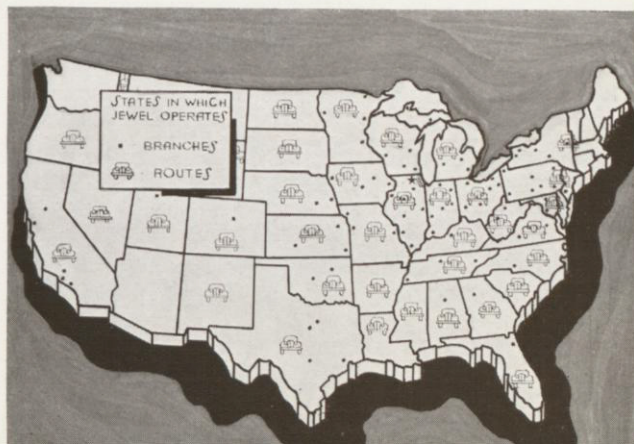
Clean, white, self-service Jewel Food Stores provide high quality foods for Chicago homemakers.



THE JEWEL METHODS OF DISTRIBUTION

If you live in territory where Jewel operates, you and your friends should enjoy Jewel Service. Your patronage contributes to the vitality of your company.

In 43 states the call of the Jewel Man is a pleasant experience because he makes his customer's interest his own. His watchword is service. The Jewel business is built on the regular patronage of satisfied customers.



EL SERVES HOMES



Jewel offers homemakers The Most
Complete Coffee Service in America